

TOWN OF BAYFIELD, COLORADO



FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

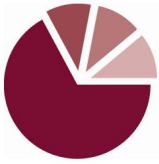
WITH REPORT OF

CERTIFIED PUBLIC ACCOUNTANTS

TOWN OF BAYFIELD, COLORADO

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Independent Auditors' Report

The Honorable Mayor and Council
 Town of Bayfield, Colorado

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Bayfield, Colorado, as of and for the year ended December 31, 2010, which collectively comprise the Town's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the Town of Bayfield as of December 31, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 23, 2011, on our consideration of the Town of Bayfield's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and budgetary comparison schedules are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The budgetary comparison schedules, loan requirement disclosures, and the Local Highway Finance Report as listed in the table of contents are presented for purposes of additional analysis as required by the State of Colorado and are not a required part of the basic financial statements of the Town. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



HINTON, BURDICK, HALL & SPILKER, PLLC

May 23, 2011

TOWN OF BAYFIELD, COLORADO
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2010

As management of the Town of Bayfield (Town), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the year ended December 31, 2010. Please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- Total assets exceeded total liabilities (net assets) by \$22.3 million at the close of the fiscal year.
- Total governmental and business-type net assets increased by a combined total of \$652,804.
- Government-wide prior period adjustments increased total net assets by \$1,286,041.
- The total cost of all Town programs for 2010 was \$4,446,042.
- The general fund unreserved fund balance at the end of 2010 was \$922,164 which is 59% of total General fund expenditures.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The three components of the financial statements are: (1) Government-wide financial statements which include the Statement of Net Assets and the Statement of Activities. These statements provide information about the activities of the Town as a whole. (2) Fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Town's operations in more detail than the government-wide statements by providing information about the Town's most significant funds. (3) Notes to the financial statements.

Reporting the Town as a Whole

The Statement of Net Assets and the Statement of Activities (Government-wide)

A frequently asked question regarding the Town's financial health is whether the year's activities contributed positively to the overall financial well-being. The Statement of Net Assets and the Statement of Activities report information about the Town as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Town's net assets and changes in them. Net assets, the difference between assets and liabilities, are one way to measure the Town's financial health, or financial position. Over time, increases or decreases in net assets are an indicator of whether the financial health is improving or deteriorating. However, it is important to consider other non-financial factors such as changes in the condition of the Town's roads to accurately assess the overall health of the Town.

The Statement of Net Assets and the Statement of Activities, present information about the following:

- Government activities – All of the Town's basic services are considered to be governmental activities, including general government, public safety, public works/streets, parks and recreation, and interest on long-term debt. Sales taxes, property taxes, franchise taxes, intergovernmental revenues and charges for services finance most of these activities.
- Proprietary activities/Business type activities – The Town charges a fee to customers to cover most of the cost of the services provided.

Reporting the Town's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds—not the Town as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds which aid in the management of money for particular purposes or meet legal responsibilities associated with the usage of certain taxes, grants, and other money. The Town's two major kinds of funds, governmental and proprietary, use different accounting approaches as explained below.

- Governmental funds – Most of the Town's basic services are reported in governmental funds. Governmental funds focus on how resources flow in and out with the balances remaining at year-end that are available for spending. These funds are reported using an accounting method called the modified accrual accounting method, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Government fund information shows whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation included with the Basic Financial Statements and in footnote 2.
- Proprietary funds – When the Town charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of the Town's financial position. The Town's combined assets exceed liabilities by \$22.3 million as of December 31, 2010 as shown in the following condensed statement of net assets. Of this amount, \$2,113,878 is unrestricted and available to meet the Town's ongoing financial obligations.

By far the largest portion of net assets is the investment in capital assets (net of related debt) of \$17,797,590 (79.80% of total net assets). This amount reflects the investment in all capital assets (e.g. infrastructure, land, buildings, and equipment) less any related debt used to acquire those assets that are still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of debt, it should be noted that the resources needed to repay this debt must be provided from other sources since capital assets themselves cannot be used to liquidate these liabilities.

The Town has chosen to account for its water, sewer, and garbage operations in enterprise funds which are shown as Business Activities.

The following table summarizes the Town's governmental and business-type net assets as of December 31, 2010 and 2009:

TOWN OF BAYFIELD, COLORADO Statement of Net Assets

	Governmental activities		Business-type activities		Combined Total	
	12/31/2010	12/31/2009	12/31/2010	12/31/2009	12/31/2010	12/31/2009
Current and other assets	\$ 3,865,005	\$ 2,535,781	\$ 1,299,246	\$ 957,836	\$ 5,164,251	\$ 3,493,617
Capital assets	11,539,403	11,823,100	14,040,125	13,903,302	25,579,528	25,726,402
Total assets	15,404,408	14,358,881	15,339,371	14,861,138	30,743,779	29,220,019
Long-term liabilities outstanding	2,711,688	2,644,397	5,075,486	5,075,235	7,787,174	7,719,632
Other liabilities	603,803	670,907	50,654	466,177	654,457	1,137,084
Total liabilities	3,315,491	3,315,304	5,126,140	5,541,412	8,441,631	8,856,716
Net assets:						
Invested in capital assets, net of related debt	8,821,833	8,903,462	8,975,757	8,607,644	17,797,590	17,511,106
Restricted	1,153,206	121,493	109,545	-	1,262,751	121,493
Unrestricted	2,113,878	2,018,622	1,127,929	712,082	3,241,807	2,730,704
Total net assets	\$ 12,088,917	\$ 11,043,577	\$ 10,213,231	\$ 9,319,726	\$ 22,302,148	\$ 20,363,303

An additional portion of net assets, \$1,262,751, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$3,241,807 (14.54% of total net assets), may be used to meet the government's ongoing obligations to citizens and creditors.

Governmental Activities

The cost of all Governmental activities this year was \$2,874,568 as shown in the Changes in net Assets statement below. \$199,832 of this cost was paid for by those who directly benefited from the programs. \$878,097 was subsidized by grants received from other governmental organizations for both capital and operating activities. Overall governmental program revenues, including intergovernmental aid and fees for services were \$1,077,929. General taxes and investment earnings totaled \$1,679,034.

The Town's programs include: General Government, Public Safety, Public Works/Streets, and Parks & Recreation. Each program's revenues and expenses are presented below.

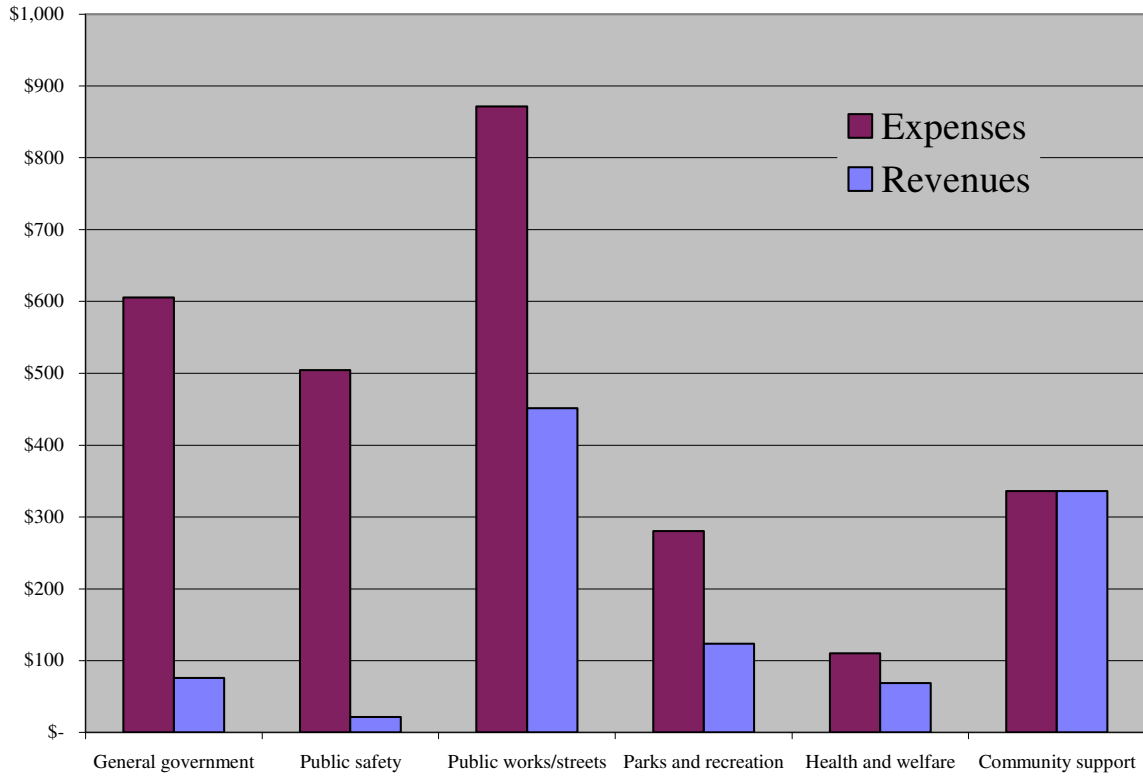
TOWN OF BAYFIELD, COLORADO Changes in Net Assets

	Governmental activities		Business-type activities		Combined Total	
	12/31/2010	12/31/2009	12/31/2010	12/31/2009	12/31/2010	12/31/2009
Revenues:						
Program revenues:						
Charges for services	\$ 199,832	\$ 259,439	\$ 1,479,477	\$ 1,106,761	\$ 1,679,309	\$ 1,366,200
Operating grants and contributions	376,737	95,057	-	137,150	376,737	232,207
Capital grants and contributions	501,360	740,787	646,392	1,670,296	1,147,752	2,411,083
General revenues:						
Taxes	1,657,638	1,818,921	-	-	1,657,638	1,818,921
Investment earnings	21,396	25,376	-	13,867	21,396	39,243
Gain on sales of assets	211,144	-	-	-	211,144	-
Other revenue/(expense)	-	-	4,870	-	4,870	-
Total revenues	<u>2,968,107</u>	<u>2,939,580</u>	<u>2,130,739</u>	<u>2,928,074</u>	<u>5,098,846</u>	<u>5,867,654</u>
Expenses:						
General government	605,481	853,086	-	-	605,481	853,086
Public safety	504,680	505,225	-	-	504,680	505,225
Public works/streets	871,713	494,466	-	-	871,713	494,466
Parks and recreation	280,309	281,074	-	-	280,309	281,074
Health and welfare	110,058	-	-	-	110,058	-
Community support	336,005	-	-	-	336,005	-
Interest on long-term debt	166,322	-	-	-	166,322	-
Water	-	-	512,157	492,103	512,157	492,103
Sewer	-	-	944,487	511,872	944,487	511,872
Garbage	-	-	114,830	98,179	114,830	98,179
Total expenses	<u>2,874,568</u>	<u>2,133,851</u>	<u>1,571,474</u>	<u>1,102,154</u>	<u>4,331,212</u>	<u>3,137,826</u>
Increase (decrease) in net assets						
before transfers	93,539	805,729	559,265	1,825,920	652,804	2,631,649
Transfers	(25,032)	-	25,032	-	-	-
Net assets, beginning	11,043,577	10,237,848	9,319,726	7,493,806	20,363,303	17,731,654
Prior period adjustment	976,833	-	309,208	-	1,286,041	-
Net assets, ending	<u>\$ 12,088,917</u>	<u>\$ 11,043,577</u>	<u>\$ 10,213,231</u>	<u>\$ 9,319,726</u>	<u>\$ 22,302,148</u>	<u>\$ 20,363,303</u>

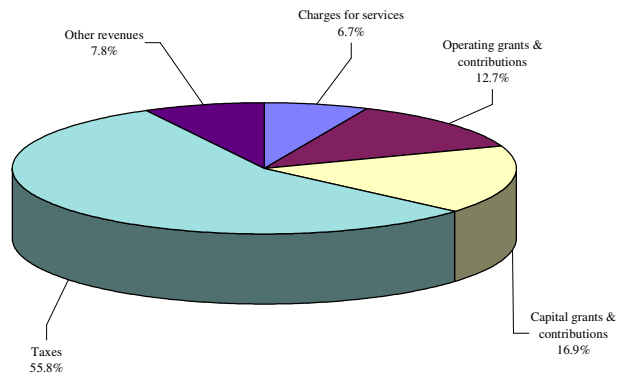
Total resources available during the year to finance governmental operations were \$14,011,684 consisting of Net assets at January 1, 2010 of \$11,043,577, program revenues of \$1,077,929, and General Revenues of \$1,890,178. Total Governmental Activities expenses during the year were (\$2,874,568), transfers to business-type funds were (\$25,032) and prior period adjustments were \$976,833; thus Governmental Net Assets were increased by \$1,045,340 to \$12,088,917.

The following graphs compare program expenses to program revenues and provides a breakdown of revenues by source for all governmental activities:

Expenses and Program Revenues - Governmental Activities
(in Thousands)



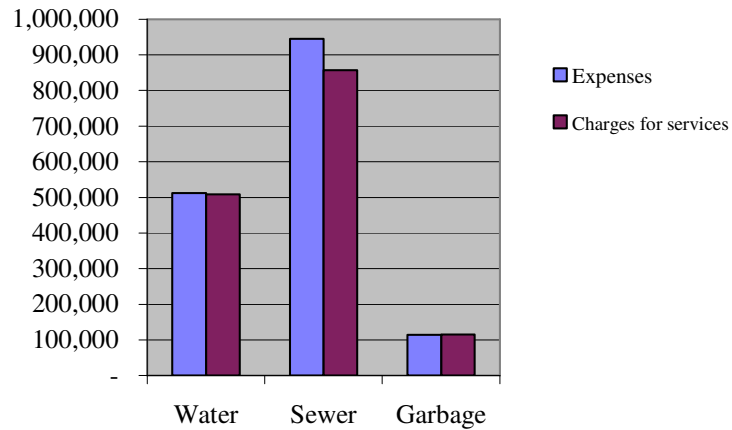
Revenue By Source - Governmental Activities



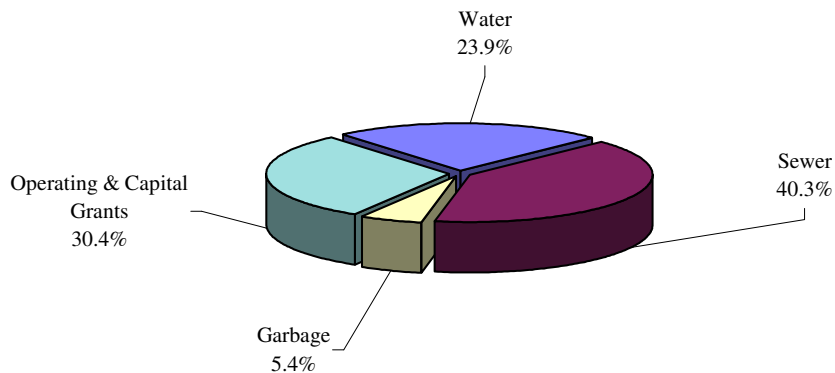
Business Type Activities

Net assets of the Business Type activities at December 31, 2010, as reflected in the Statement of Net Assets were \$10.2 million. The cost of providing all Proprietary (Business Type) activities this year was \$1,571,474. As shown in the statement of Changes in Net Assets, the amounts paid by users of the system were \$1,479,477 and there was \$646,392 subsidized by capital grants and contributions. Investment earnings and other revenues were \$4,870. Transfers from governmental activities totaled \$25,032. The Net Assets increased by \$584,297. The following graphs compare the total business-type activity expenses by service to the charges for those services and the graph at the bottom of the page provides a breakdown of the total revenues for business-type activities.

Expenses and Charges for Services - Business- type Activities



Revenue By Source - Business-type Activities



Financial Analysis of the Government's Funds

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds: The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$2,208,531, an increase of \$89,352 in comparison with the prior year. Approximately 63% (\$978,116) constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to pay for capital investment (\$1,113,158), debt service (\$45,207), and emergency reserves (\$72,050).

The Town has three major governmental funds, the general fund, the parks and recreation fund, and the capital improvement fund.

The general fund is the primary operating fund for the Town. At December 31, 2010, unreserved fund balance in the General fund was \$922,164. As a measure of the General fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Total unreserved fund balance represents 59% of the total General fund expenditures. The fund balance of the Town's General fund increased by \$103,348 for the year ended December 31, 2010. As compared to the prior year, the General fund sales tax revenues were up for the year and the Town was able to reduce spending which resulted in a positive change in fund balance.

Although the parks and recreation fund began the year with a deficit fund balance, inter-fund transfers were recorded during the year to eliminate the deficit. The fund ended the year with a positive fund balance of \$55,952.

The capital improvement fund budgeted for and completed several projects during the year. The expected reduction in fund balance was (\$74,022). The actual change in fund balance was (\$106,509). The additional reduction in fund balance was a result of unanticipated refinancing costs on the Town Hall.

Proprietary funds: The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Net assets and changes in net assets for the year-ended December 31, 2010 for the Town's three enterprise funds (Water, Sewer, and Garbage) are as follows:

	Water	Sewer	Garbage	Total
Unrestricted net assets	\$ 622,557	\$ 453,162	\$ 52,210	\$ 1,127,929
Total net assets	4,383,629	5,720,876	108,726	10,213,231
Change in net assets	137,016	388,928	58,353	584,297

The capital assets in the sewer fund increased dramatically during the year as a result of the completion of the Gem Village Lift Station which was primary funded by capital grants. Sewer rates were increase on January 1, 2010 to help offset increasing costs in the sewer fund. In the water fund, the SCADA system was completed and an upgrade to Mesa Avenue was completed resulting in an increase in capital assets in the water fund. In 2010, the Town transferred the recycling center to the garbage fund for accounting purposes.

Budgetary Highlights

General fund revenues of \$1,824,483 were less than budgeted revenues of 2,023,500 by \$199,017. The most significant factor contributing to this shortfall is related to budgeted grant revenues of \$551,250 of which only \$353,505 was received during the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The capital assets of the Town are those assets that are used in performance of Town functions including infrastructure assets. Capital Assets include equipment, buildings, land, system improvements, park facilities and roads. At the end of 2010, net capital assets of the government activities totaled \$11.5 million and the net capital assets of the business-type activities were \$14 million. The most significant governmental capital additions were the park improvements to Joe Stephenson park and the HWY 160 sidewalk project. The most significant business-type capital addition was the completion of the Gem Village lift station. Depreciation on capital assets for both government activities and business-type activities is recognized in the Government-Wide financial statements. (See note 6 to the financial statements.)

Debt

At year-end, the Town had \$2,711,688 in governmental type debt, and \$5,075,487 in proprietary debt. During the current fiscal year, the Town's total debt decreased by \$494,109. (See note 7 to the financial statements for detailed descriptions.)

NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

In considering the Town Budget for fiscal year 2011, the Town Board of Trustees and management were cautious as to the growth of revenues and expenditures due to a slow economy.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Director at: 1199 US Highway 160B Bayfield, Colorado 81122.

BASIC FINANCIAL STATEMENTS

TOWN OF BAYFIELD, COLORADO
Statement of Net Assets
December 31, 2010

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 2,027,236	\$ 1,124,864	\$ 3,152,100
Receivables (net of allowance)	1,683,562	88,837	1,772,399
Internal balances	91,000	(91,000)	-
Inventories	18,000	67,000	85,000
Temporarily restricted assets:			
Cash and cash equivalents	45,207	109,545	154,752
Capital assets (net of accumulated depreciation):			
Land	752,600	103,766	856,366
Buildings	5,982,065	95,061	6,077,126
Machinery and equipment	180,227	282,639	462,866
Vehicles	145,319	-	145,319
Infrastructure and systems	4,479,192	13,558,659	18,037,851
Total assets	<u>15,404,408</u>	<u>15,339,371</u>	<u>30,743,779</u>
Liabilities			
Accounts payable and other current liabilities	319,409	50,654	370,063
Interest payable	55,328	-	55,328
Unearned revenue	229,066	-	229,066
Noncurrent liabilities:			
Due within one year	348,152	237,975	586,127
Due in more than one year	2,363,536	4,837,511	7,201,047
Total liabilities	<u>3,315,491</u>	<u>5,126,140</u>	<u>8,441,631</u>
Net Assets			
Invested in capital assets, net of related debt	8,821,833	8,975,757	17,797,590
Restricted for:			
Debt service	1,153,206	109,545	1,262,751
Unrestricted	2,113,878	1,127,929	3,241,807
Total Net Assets	<u>\$ 12,088,917</u>	<u>\$ 10,213,231</u>	<u>\$ 22,302,148</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF BAYFIELD, COLORADO
Statement of Activities
For the Year Ended December 31, 2010

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Governmental activities:							
General government	\$ 605,481	\$ 58,394	\$ 17,500	\$ -	\$ (529,587)	\$ -	\$ (529,587)
Public safety	504,680	21,830	-	-	(482,850)	-	(482,850)
Public works/streets	871,713	52,222	-	399,446	(420,045)	-	(420,045)
Parks and recreation	280,309	54,359	19,892	49,414	(156,644)	-	(156,644)
Health and welfare	110,058	13,027	3,340	52,500	(41,191)	-	(41,191)
Community support	336,005	-	336,005	-	-	-	-
Interest on long-term debt	166,322	-	-	-	(166,322)	-	(166,322)
Total governmental activities	<u>2,874,568</u>	<u>199,832</u>	<u>376,737</u>	<u>501,360</u>	<u>(1,796,639)</u>	<u>-</u>	<u>(1,796,639)</u>
Business-type activities:							
Water	512,157	507,969	-	150,186	-	145,998	145,998
Sewer	944,487	856,393	-	496,206	-	408,112	408,112
Garbage	114,830	115,115	-	-	-	285	285
Total business-type activities	<u>1,571,474</u>	<u>1,479,477</u>	<u>-</u>	<u>646,392</u>	<u>-</u>	<u>554,395</u>	<u>554,395</u>
Total primary government	<u>\$ 4,446,042</u>	<u>\$ 1,679,309</u>	<u>\$ 376,737</u>	<u>\$ 1,147,752</u>	<u>(1,796,639)</u>	<u>554,395</u>	<u>(1,242,244)</u>
General Revenues:							
Taxes:							
Property tax					249,480	-	249,480
Sales tax					1,188,242	-	1,188,242
Other taxes					208,520	-	208,520
Franchise tax					11,396	-	11,396
Unrestricted investment earnings					21,396	4,870	26,266
Gain on sale of assets					211,144	-	211,144
Transfers					(25,032)	25,032	-
Total general revenues & transfers					<u>1,865,146</u>	<u>29,902</u>	<u>1,895,048</u>
Change in net assets					68,507	584,297	652,804
Net assets - beginning					11,043,577	9,319,726	20,363,303
Prior period adjustments					976,833	309,208	1,286,041
Net assets - ending					<u>\$ 12,088,917</u>	<u>\$ 10,213,231</u>	<u>\$ 22,302,148</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF BAYFIELD, COLORADO
Balance Sheet
Governmental Funds
December 31, 2010

Assets	General Fund	Parks & Recreation Fund	Capital Improvement Fund	Nonmajor Debt Service Fund	Total Governmental Funds
Cash and cash equivalents	\$ 933,928	\$ 142,849	950,459	\$ -	\$ 2,027,236
Receivables, net of allowances:	767	-	-	1,107,999	1,108,766
Due from other governments	529,699	-	45,097	-	574,796
Due from other funds	-	-	168,000	-	168,000
Inventories	18,000	-	-	-	18,000
Restricted cash and investments	-	-	-	45,207	45,207
Total Assets	<u>\$ 1,482,394</u>	<u>\$ 142,849</u>	<u>\$ 1,163,556</u>	<u>\$ 1,153,206</u>	<u>\$ 3,942,005</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 209,545	\$ 5,789	\$ 50,398	\$ -	\$ 265,732
Accrued liabilities	49,569	4,108	-	-	53,677
Due to other funds	-	77,000	-	-	77,000
Deferred revenue	229,066	-	-	1,107,999	1,337,065
Total liabilities	<u>488,180</u>	<u>86,897</u>	<u>50,398</u>	<u>1,107,999</u>	<u>1,733,474</u>
Fund balances:					
Reserved	72,050	-	-	45,207	117,257
Designated	-	-	1,113,158	-	1,113,158
Unreserved/undesignated	922,164	55,952	-	-	978,116
Total fund balances	<u>994,214</u>	<u>55,952</u>	<u>1,113,158</u>	<u>45,207</u>	<u>2,208,531</u>
Total liabilities and fund balances	<u>\$ 1,482,394</u>	<u>\$ 142,849</u>	<u>\$ 1,163,556</u>	<u>\$ 1,153,206</u>	<u>\$ 3,942,005</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF BAYFIELD, COLORADO
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
December 31, 2010

Total fund balances - governmental funds \$ 2,208,531

Amounts reported for governmental activities in the statement of net assets are different because:

Some assets are not available to pay for current period expenditures, and therefore, are deferred in the funds. 1,107,999

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Governmental capital assets	14,575,025	
Accumulated depreciation	<u>(3,035,622)</u>	
		11,539,403

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.

Capital leases payable	(1,657,241)
Bonds payable	(1,005,000)
Interest payable	(55,328)
Compensated absences	<u>(49,447)</u>

Total net assets - governmental activities \$ 12,088,917

The accompanying notes are an integral part of the financial statements.

TOWN OF BAYFIELD, COLORADO
Statement of Revenues, Expenditures, and Changes in
Fund Balances - Governmental Funds
For the Year Ended December 31, 2010

	General Fund	Parks & Recreation	Capital Improvement Fund	Nonmajor Debt Service Fund	Total Governmental Funds
Revenues					
Taxes	\$ 1,366,058	\$ -	\$ 291,581	\$ -	\$ 1,657,639
Licenses and permits	52,955	-	-	-	52,955
Intergovernmental	353,505	102,392	299,673	-	755,570
Fines and forfeitures	16,656	-	-	-	16,656
Charges for services	27,202	61,013	-	-	88,215
Interest revenue	5,874	121	14,846	555	21,396
Special assessments	-	-	-	152,587	152,587
Other revenues	2,233	9,712	-	-	11,945
Total revenues	<u>1,824,483</u>	<u>173,238</u>	<u>606,100</u>	<u>153,142</u>	<u>2,756,963</u>
Expenditures					
Current:					
General government	492,929	-	-	1,697	494,626
Public safety	475,596	-	-	-	475,596
Public works/streets	224,413	-	-	-	224,413
Non-departmental	17,414	-	-	-	17,414
Parks and recreation	-	243,288	-	-	243,288
Health and welfare	-	76,233	-	-	76,233
Payments to sub recipients	336,005	-	-	-	336,005
Capital outlay	12,778	36,749	614,759	-	664,286
Debt service:					
Principal retirement	-	-	1,834,939	80,000	1,914,939
Interest on long-term debt	-	-	101,020	64,900	165,920
Total expenditures	<u>1,559,135</u>	<u>356,270</u>	<u>2,550,718</u>	<u>146,597</u>	<u>4,612,720</u>
Excess of revenues over (under) expenditures	265,348	(183,032)	(1,944,618)	6,545	(1,855,757)
Other financing sources (uses):					
Transfers in	-	269,000	32,936	-	301,936
Transfers out	(162,000)	-	(107,000)	-	(269,000)
Capital lease	-	-	1,657,241	-	1,657,241
Sale of assets	-	-	254,932	-	254,932
Total other financing sources (uses)	<u>(162,000)</u>	<u>269,000</u>	<u>1,838,109</u>	<u>-</u>	<u>1,945,109</u>
Net change in fund balances	103,348	85,968	(106,509)	6,545	89,352
Fund balance, beginning of year	891,781	(28,606)	1,238,276	38,662	2,140,113
Prior period adjustment	(915)	(1,410)	(18,609)	-	(20,934)
Fund balance, end of year	<u>\$ 994,214</u>	<u>\$ 55,952</u>	<u>\$ 1,113,158</u>	<u>\$ 45,207</u>	<u>\$ 2,208,531</u>

The accompanying notes are an integral part of the financial statements

TOWN OF BAYFIELD, COLORADO
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended December 31, 2010

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$	89,352
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.</p>		
Capital outlay		309,312
Depreciation expense		<u>(491,253)</u>
		(181,941)
<p>Capital contributions to proprietary funds from the governmental funds are recorded as a transfer in the statement of activities, but are not reported in the governmental funds because they are not financial resources.</p>		
		(57,968)
<p>Governmental funds report the gross proceeds from the sale of capital assets as revenue. However, in the statement of activities, the gain on the sale of capital assets is reported net of its net book value.</p>		
		(43,788)
<p>Repayment of long term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p>		
		1,914,537
<p>Issuance of long-term debt provides current financial resources in the governmental funds but increases long-term liabilities in the statement of net assets.</p>		
		(1,657,241)
Change in net assets of governmental activities	<u>\$</u>	<u>68,507</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF BAYFIELD, COLORADO
Statement of Net Assets
Proprietary Funds
December 31, 2010

	Water Fund	Sewer Fund	Garbage Fund	Combined Total
Assets				
Current assets:				
Cash	\$ 676,843	\$ 401,342	\$ 46,679	\$ 1,124,864
Receivables (net of allowance)	37,793	45,015	6,029	88,837
Inventory	45,500	21,500	-	67,000
Restricted cash and investments	-	109,545	-	109,545
Total current assets	<u>760,136</u>	<u>577,402</u>	<u>52,708</u>	<u>1,390,246</u>
Noncurrent assets:				
Land	55,858	47,908	-	103,766
Buildings	9,250	224,643	57,967	291,860
Improvements and system	5,181,732	11,036,278	-	16,218,010
Machinery and equipment	150,154	185,624	-	335,778
Accumulated depreciation	(1,332,564)	(1,575,274)	(1,451)	(2,909,289)
Total noncurrent assets	<u>4,064,430</u>	<u>9,919,179</u>	<u>56,516</u>	<u>14,040,125</u>
Total assets	<u>\$ 4,824,566</u>	<u>\$ 10,496,581</u>	<u>\$ 109,224</u>	<u>\$ 15,430,371</u>
Liabilities				
Current liabilities:				
Accounts payable	3,859	8,120	-	11,979
Accrued liabilities	38,475	-	200	38,675
Due to other funds	91,000	-	-	91,000
Loans payable - current	31,857	195,000	-	226,857
Compensated absences - current	4,245	6,575	298	11,118
Total current liabilities	<u>169,436</u>	<u>209,695</u>	<u>498</u>	<u>379,629</u>
Noncurrent liabilities:				
Loans payable (net of current portion)	271,501	4,566,010	-	4,837,511
Compensated absences (net of current portion)	-	-	-	-
Total long-term debt	<u>271,501</u>	<u>4,566,010</u>	<u>-</u>	<u>4,837,511</u>
Total liabilities	<u>440,937</u>	<u>4,775,705</u>	<u>498</u>	<u>5,217,140</u>
Net assets				
Invested in capital assets, net of related debt	3,761,072	5,158,169	56,516	8,975,757
Restricted	-	109,545	-	109,545
Unrestricted	622,557	453,162	52,210	1,127,929
Total net assets	<u>\$ 4,383,629</u>	<u>\$ 5,720,876</u>	<u>\$ 108,726</u>	<u>\$ 10,213,231</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF BAYFIELD, COLORADO
Statement Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2010

	Water Fund	Sewer Fund	Garbage Fund	Combined Total
Operating revenues				
Charges for services	\$ 507,969	\$ 680,690	\$ 115,115	\$ 1,303,774
Other revenues	-	175,703	-	175,703
Total operating revenues	<u>507,969</u>	<u>856,393</u>	<u>115,115</u>	<u>1,479,477</u>
Operating expenses				
Salaries and wages	136,018	190,506	9,426	335,950
Water storage	21,131	-	-	21,131
Pumping costs	40,059	-	-	40,059
Water treatment	46,607	-	-	46,607
Transmission and distribution	58,599	-	-	58,599
Collection and transmission	-	13,870	-	13,870
Sewer treatment	-	90,057	-	90,057
General operations	-	5,201	102,838	108,039
Administrative	60,732	27,251	1,115	89,098
Miscellaneous	-	27,870	-	27,870
Depreciation	133,462	289,145	1,451	424,058
Total operating expenses	<u>496,608</u>	<u>643,900</u>	<u>114,830</u>	<u>1,255,338</u>
Operating income	<u>11,361</u>	<u>212,493</u>	<u>285</u>	<u>224,139</u>
Non-operating revenues (expenses)				
Interest income	4,436	333	101	4,870
Interest expense and fiscal charges	(15,549)	(177,612)	-	(193,161)
Decommissioning costs	-	(83,426)	-	(83,426)
Grant revenue	68,000	396,656	-	464,656
Loss on disposal of assets	-	(39,549)	-	(39,549)
Connection and tap fees	82,186	99,550	-	181,736
Total non-operating revenues (expenses)	<u>139,073</u>	<u>195,952</u>	<u>101</u>	<u>335,126</u>
Income before contributions and transfers	150,434	408,445	386	559,265
Contributions and transfers:				
Capital contributions and grants	-	-	57,967	57,967
Transfers out	(13,418)	(19,517)	-	(32,935)
Change in net assets	137,016	388,928	58,353	584,297
Total net assets, beginning of year	4,175,112	5,093,993	50,621	9,319,726
Prior period adjustments	<u>71,501</u>	<u>237,955</u>	<u>(248)</u>	<u>309,208</u>
Total net assets, end of year	<u>\$ 4,383,629</u>	<u>\$ 5,720,876</u>	<u>\$ 108,726</u>	<u>\$ 10,213,231</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF BAYFIELD, COLORADO
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2010

	Water Fund	Sewer Fund	Garbage Fund	Combined Total
Cash flows from operating activities:				
Cash received from customers, service fees	\$ 499,561	\$ 811,720	\$ 113,156	\$ 1,424,437
Cash received from customers, other	-	175,703	-	175,703
Cash paid to suppliers	(172,361)	(133,748)	(102,638)	(408,747)
Cash paid to employees	(196,750)	(217,749)	(10,491)	(424,990)
Cash paid for interfund services	(41,000)	-	-	(41,000)
Net cash flows from operating activities	<u>89,450</u>	<u>635,926</u>	<u>27</u>	<u>725,403</u>
Cash flows from noncapital financing activities:				
Transfers from/(to) other funds	(13,418)	(19,517)	-	(32,935)
Net cash flows from noncapital financing activities	<u>(13,418)</u>	<u>(19,517)</u>	<u>-</u>	<u>(32,935)</u>
Cash flows from capital and related financing activities:				
Purchase of capital assets	(117,926)	(424,536)	-	(542,462)
Principal paid on long-term debt	(30,423)	(200,866)	-	(231,289)
Interest paid	(15,549)	(177,612)	-	(193,161)
Decommissioning costs	-	(83,426)	-	(83,426)
Capital grants	68,000	574,835	-	642,835
Connection and tap fees	82,186	99,550	-	181,736
Net cash flows from capital and related financing activities	<u>(13,712)</u>	<u>(212,055)</u>	<u>-</u>	<u>(225,767)</u>
Cash flows from investing activities:				
Interest on investments	4,436	333	101	4,870
Net change in cash and cash equivalents	66,756	404,687	128	471,571
Cash and cash equivalents, including restricted cash beginning of year	610,087	106,200	46,551	762,838
Cash and cash equivalents, including restricted cash end of year	<u>\$ 676,843</u>	<u>\$ 510,887</u>	<u>\$ 46,679</u>	<u>\$ 1,234,409</u>
Reconciliation of operating income to net cash provided by operating activities:				
Net operating income	\$ 11,361	\$ 212,493	\$ 285	\$ 224,139
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation/amortization	133,462	289,145	1,451	424,058
Changes in operating assets and liabilities:				
(Increase)/decrease in receivables	(8,408)	131,030	(1,959)	120,663
Increase/(decrease) in payables	3,859	3,250	200	7,309
Increase/(decrease) in accrued liabilities & deposits	(9,824)	8	50	(9,766)
Increase/(decrease) in due to other funds	(41,000)	-	-	(41,000)
Net cash flows from operating activities	<u>\$ 89,450</u>	<u>\$ 635,926</u>	<u>\$ 27</u>	<u>\$ 725,403</u>
Supplemental schedule of non-cash financing and investing activities:				
Capital contributions	\$ -	\$ -	\$ 57,967	\$ -

The accompanying notes are an integral part of the financial statements.

TOWN OF BAYFIELD, COLORADO
Notes to the Financial Statements
December 31, 2010

Note 1. Summary of Significant Accounting Policies

General

The accounting policies of the Town of Bayfield, Colorado (the Town) conform to U.S. generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies.

Reporting Entity

The government is a statutory municipality with a mayor – Council form of government with six elected Council members. As required by accounting principles generally accepted in the United States of America, these financial statements present the government and any potential component units, entities for which the government is considered to be financially accountable. However, there are no blended or discretely presented component units that are applicable in defining the Town’s reporting entity. The financial statements include all funds and account groups that account for activities over which the Town’s elected mayor and council exercise primary financial management and oversight responsibility.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of the inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

TOWN OF BAYFIELD, COLORADO
Notes to the Financial Statements
December 31, 2010

Note 1. Summary of Significant Accounting Policies, Continued

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The use of financial resources to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than as an expenditure. Proceeds from long-term debt are recorded as a liability in the government-wide financial statements, rather than as another financing source. Amounts paid to reduce long-term debt of the Town are reported as a reduction of a related liability, rather than an expenditure in the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, franchise tax, other taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. When applicable, only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the Town.

The Town reports the following major governmental funds:

The **General Fund** is the Town's primary operating fund. It accounts for all financial resources of the general government, except for those required to be accounted for in another fund.

The **Parks and Recreation Fund** accounts for the Senior Center activities, parks and recreation activities, and the State of Colorado lottery funds to be used for parks and recreation services and capital investment.

The **Capital Improvement Fund** accounts for acquisition or construction of major capital facilities (other than those belonging to enterprise funds).

TOWN OF BAYFIELD, COLORADO
Notes to the Financial Statements
December 31, 2010

Note 1. Summary of Significant Accounting Policies, Continued

The Town reports the following major proprietary funds:

The **Water Fund** accounts for the activities related to the Town's water wells, treatment facilities and distribution operations.

The **Sewer Fund** accounts for the activities related to the Town's sewer collection and treatment operations.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services.

Operating expenses for the proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted assets are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Deposits and Investments

The Town's cash and cash equivalents are considered to be cash-on-hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition for purposes of this note and the statement of cash flows.

TOWN OF BAYFIELD, COLORADO
Notes to the Financial Statements
December 31, 2010

Note 1. Summary of Significant Accounting Policies, Continued

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “due to” or “due from other funds. All trade accounts receivable in the enterprise funds are shown net of an allowance for uncollectible accounts. Due to the nature of the accounts receivable in governmental type activities, management does not consider an allowance for uncollectible accounts receivable necessary or material. Therefore, no allowance for uncollectible accounts receivable is presented.

Property Taxes – Deferred Revenue

Property tax revenues are recognized as revenues in the year collected or if collected within 60 days thereafter unless they are prepaid. Property taxes levied in the current year and not collected within 60 days of year-end are not deemed available to pay current liabilities and therefore the receivable is recorded as deferred revenue in the governmental funds. Property taxes for the current year are levied by the County and attach as a lien on property the following January 1. They are payable in full by April 30 or in two equal installments due February 28 and June 15. The County also levies various personal property taxes during the year.

Inventories

Governmental fund-type inventories consist of street maintenance materials and other supplies and are valued at cost using the first-in/first-out (FIFO) method. Inventories for business type activities consist of various parts and supplies and are valued at cost using the first-in/first-out (FIFO) method.

Capital Assets

Capital assets, which include; property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activity columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an individual cost of more than \$2,500 and an estimated useful life of three years or more. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Property, plant and equipment is depreciated using the straight-line method over the following estimated useful lives:

Buildings and improvements	7 to 40 years
Utility plant and improvements	39 to 40 years
Machinery, equipment and vehicles	5 to 20 years
Infrastructure	7 to 25 years

TOWN OF BAYFIELD, COLORADO
Notes to the Financial Statements
December 31, 2010

Note 1. Summary of Significant Accounting Policies, Continued

Compensated Absences

For governmental funds, amounts of vested or accumulated vacation and sick leave that are not expected to be liquidated with expendable available financial resources are reported as liabilities in the government-wide statement of net assets and as expenses in the government-wide statement of activities. No expenditures are reported for these amounts in the fund financial statements. Vested or accumulated vacation and sick leave in the proprietary fund are recorded as an expense and a liability of that fund as the benefits accrue to the employees and are thus recorded in both the government-wide financial statements and the individual fund financial statements.

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums, discounts, and issuance costs are deferred and amortized over the life of the applicable debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Note 2. Reconciliation of Government-Wide and Fund Financial Statements

The governmental fund balance sheet includes a reconciliation between total governmental fund balances and net assets of governmental activities as reported in the government-wide statement of net assets. These differences primarily result from the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheets. The details of these differences are reported in the reconciliation.

The governmental fund statement of revenues, expenditures, and changes in fund balance includes a reconciliation between net changes in fund balances-total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. These differences are the result of converting from the current resources measurement focus and modified accrual basis for governmental fund statements to the economic resources measurement focus and full accrual basis used for government-wide statements. The details of these differences are reported in the reconciliation.

TOWN OF BAYFIELD, COLORADO
Notes to the Financial Statements
December 31, 2010

Note 3. Stewardship, Compliance, and Accountability

Stewardship, compliance, and accountability are key concepts in defining the responsibilities of the Town. The use of budgets and monitoring of equity status facilitate the Town's compliance with legal requirements.

Budgets and Budgetary Accounting

The Town Council adheres to the following procedures in establishing the budgetary data reflected in the financial statements:

- In accordance with State statutes, prior to September 1, the Town Clerk submits to the Town Council a proposed operating budget for the calendar year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year and actual data for the two preceding years. The State statutes require more detailed line item budgets be submitted in summary form. In addition, more detailed line item budgets are included for administration control. The level of control for the detailed budgets is at the department head function level.
- Public hearings are conducted to obtain taxpayer comment.
- Prior to December 31, the budget is legally adopted through passage of a resolution.
- The Town Clerk is required to present a monthly report to the Town Council explaining any variance from the approved budget.
- Formal budgetary integration is employed as a management control device during the year for all funds of the Town.
- Appropriations lapse at the end of each calendar year.
- The Town Council may authorize supplemental appropriations during the year.

Budget amounts included in the financial statements report both the original and final amended budget. There were revisions made to the original budget during the year.

Budgets for governmental funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America, except for long-term receivables and advances and capital lease financing which are budgeted when liquidated rather than when the receivable/liability is incurred. Budgets for enterprise funds are adopted on a basis consistent with the spending measurement focus of the governmental funds.

TOWN OF BAYFIELD, COLORADO
Notes to the Financial Statements
December 31, 2010

Note 3. Stewardship, Compliance, and Accountability, Continued

Expenditures over Appropriations

Per C.R.S. 29-1-108(2), appropriations are made by fund or spending agency (e.g. department) within a fund at the discretion of the Town Council. The Council by Resolution has made appropriations at the fund level and thus, expenditures may not legally exceed budgeted appropriations at the fund level. The individual Schedules of Revenues, Expenditures and Changes in Fund Balances - Budget to Actual reports as listed in the table of contents report those funds that exceeded approved budget appropriations. The Capital Improvement, Water, and Garbage funds incurred expenditures/expenses over appropriations for the year ended December 31, 2010.

Tax, Spending and Debt Limitations

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local governments, excluding "enterprises."

The Amendment requires that an emergency reserve be maintained at three percent of fiscal year spending (excluding bonded debt service). A portion of the General Fund's fund balance is classified as restricted for emergencies as required by the Amendment. The Town is not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

The Amendment is complex and subject to judicial interpretation. The Town believes it is in compliance with the requirements of the Amendment. However, the entity has made certain interpretations in the Amendment's language in order to determine its compliance.

Debt Covenants

See the supplementary information listed in the on page 53 for compliance with debt covenants.

Note 4. Deposits and Investments

A summary of cash and investments as shown on the statement of net assets follows:

Cash on hand	\$ 1,778
Cash in bank	1,742,371
Colorado Trust	478,918
Certificates of deposit	1,083,786
Total cash and investments	<u>\$ 3,306,853</u>

TOWN OF BAYFIELD, COLORADO
Notes to the Financial Statements
December 31, 2010

Note 4. Deposits and Investments, Continued

Deposits

Custodial Credit Risk

For deposits this is the risk that in the event of a bank failure, the government's deposit may not be returned to it. The Town does not have a formal policy for custodial credit risk; however, the Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories; eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. The PDPA allows the institution to create a single collateral pool for all public funds. The pool is to be maintained by another institution or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to the aggregate uninsured deposits. Collateral in the pool is considered to be equal to depository insurance pursuant to definitions listed in GASB Statement No. 40. At December 31, 2010 cash on hand was \$1,778 and the carrying amount of the Town's deposits was \$1,742,371. As of December 31, 2010 the bank balance of the Town's deposits was \$1,748,363 of which \$251,553 was insured by federal depository insurance and \$1,496,810 was collateralized by the PDPA as noted above.

Investments

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local government entities may invest. Authorized investments include obligations of the United States and certain U.S. government agency securities; certain international agency securities; general obligation and revenue bonds of U.S. local government entities; bankers' acceptances of certain banks; commercial paper; local government investment pools; written repurchase agreements collateralized by certain authorized securities; certain money market funds; and, guaranteed investment contracts. The Town's investment policy follows Colorado statutes. At December 31, 2010 the Town's investments included certificates of deposit and funds held in the Colorado Government Liquid Asset Trust (COLOTRUST).

The COLOTRUST is an investment vehicle established for local government entities in Colorado to pool surplus funds. COLOTRUST operates similarly to a money market fund and each share is equal in value to \$1.00. Investments of COLOTRUST consist of U.S. Treasury bills, notes and note strips and repurchase agreements collateralized by U.S. Treasury securities.

A designated custodial bank provides safekeeping and depository services to COLOTRUST in connection with direct investment and withdrawal functions of COLOTRUST. Substantially all securities owned by COLOTRUST are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by COLOTRUST. These pools are not required to and are not registered with the SEC.

As of December 31, 2010 the Town had \$478,918 invested in the COLOTRUST with a fair market value of \$478,918 and maturities of less than one year. The COLOTRUST's funds are rated AAA by Standard and Poor's, Fitch's and Moody's rating services.

TOWN OF BAYFIELD, COLORADO
Notes to the Financial Statements
December 31, 2010

Note 4. Deposits and Investments, Continued

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Town's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the provisions of the Colorado Public Deposit Protection Act (PDPA) which requires that the Town's investment portfolio maturities do not exceed five years from the time of purchase.

Credit risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Town's policy for reducing its exposure to credit risk is to comply with the provisions of the Colorado Public Deposit Protection Act (PDPA) which limits investment in commercial paper and corporate bonds to the top ratings issued by at least two nationally recognized statistical rating organizations such as Standard & Poor's and Moody's Investor Services.

Note 5. Restricted Assets

The Town reported \$109,545 in restricted cash as of December 31, 2010 as required by the Colorado Water Resources and Power Development Authority Loan Agreement.

TOWN OF BAYFIELD, COLORADO
Notes to the Financial Statements
December 31, 2010

Note 6. Capital Assets

The following table summarizes the changes to capital assets for governmental activities during the year.

Governmental Activities:	Balance 12/31/2009	Adjustments*	Additions	Deletions	Balance 12/31/2010
Capital assets, not being depreciated:					
Land	\$ 746,600	\$ -	\$ 6,000	\$ -	\$ 752,600
Construction in progress	523,247	(35,005)	-	(488,242)	-
Total capital assets, not being depreciated	<u>1,269,847</u>	<u>(35,005)</u>	<u>6,000</u>	<u>(488,242)</u>	<u>752,600</u>
Capital assets, being depreciated:					
Buildings & improvements	6,134,097	23,897	318,441	(111,287)	6,365,148
Machinery and equipment	-	199,003	111,729	-	310,732
Vehicles	512,856	(168,955)	21,019	-	364,920
Infrastructure	4,858,624	1,582,636	340,365	-	6,781,625
Total capital assets, being depreciated	<u>11,505,577</u>	<u>1,636,581</u>	<u>791,554</u>	<u>(111,287)</u>	<u>13,822,425</u>
Less accumulated depreciation for:					
Buildings & improvements	(173,831)	(55,202)	(163,581)	9,531	(383,083)
Machinery and equipment	-	(93,870)	(36,635)	-	(130,505)
Vehicles	(215,472)	40,042	(44,171)	-	(219,601)
Infrastructure	(563,021)	(1,492,546)	(246,866)	-	(2,302,433)
Total accumulated depreciation	<u>(952,324)</u>	<u>(1,601,576)</u>	<u>(491,253)</u>	<u>9,531</u>	<u>(3,035,622)</u>
Total capital assets, being depreciated, net	<u>10,553,253</u>	<u>35,005</u>	<u>300,301</u>	<u>(101,756)</u>	<u>10,786,803</u>
Governmental activities capital assets, net	<u>\$ 11,823,100</u>	<u>\$ -</u>	<u>\$ 306,301</u>	<u>\$ (589,998)</u>	<u>\$ 11,539,403</u>

*The items in the adjustments column relate to transfers to other account and the result of prior period adjustments. See footnote 13 for additional information regarding the prior period adjustments.

Depreciation expense was charged to the functions/programs of the City as follows:

Governmental Activities:	
General government	\$ 104,280
Public safety	20,062
Public works/streets	305,370
Parks & recreation	24,799
Health & welfare	36,742
Total depreciation expense - governmental activities	<u>\$ 491,253</u>

TOWN OF BAYFIELD, COLORADO
Notes to the Financial Statements
December 31, 2010

Note 6. Capital Assets, Continued

The following table summarizes the changes to capital assets for business-type activities during the year.

Business Type Activities:	Balance 12/31/2009	Additions	Deletions	Balance 12/31/2010
Capital assets not being depreciated:				
Land and water rights	\$ 103,766	\$ -	\$ -	\$ 103,766
Construction in progress	495,635	-	(495,635)	-
Total capital assets, not being depreciated	<u>599,401</u>	<u>-</u>	<u>(495,635)</u>	<u>103,766</u>
Capital assets being depreciated:				
Buildings	233,893	57,967	-	291,860
Improvements and systems	15,521,553	746,457	(50,000)	16,218,010
Machinery and equipment	44,410	291,368	-	335,778
Total capital assets, being depreciated	<u>15,799,856</u>	<u>1,095,792</u>	<u>(50,000)</u>	<u>16,845,648</u>
Less accumulated depreciation for:				
Buildings	(189,588)	(7,211)	-	(196,799)
Improvements and systems	(2,261,684)	(408,118)	10,451	(2,659,351)
Machinery and equipment	(44,410)	(8,729)	-	(53,139)
Total accumulated depreciation	<u>(2,495,682)</u>	<u>(424,058)</u>	<u>10,451</u>	<u>(2,909,289)</u>
Total capital assets, being depreciated, net	<u>13,304,174</u>	<u>671,734</u>	<u>(39,549)</u>	<u>13,936,359</u>
Business-type activities capital assets, net	<u>\$ 13,903,575</u>	<u>\$ 671,734</u>	<u>\$ (535,184)</u>	<u>\$ 14,040,125</u>

Depreciation expense was charged to the functions/programs of the City as follows:

Business-Type Activities:

Water	\$ 133,461
Sewer	289,146
Garbage	1,451
Total depreciation expense - business-type activities	<u>\$ 424,058</u>

TOWN OF BAYFIELD, COLORADO
Notes to the Financial Statements
December 31, 2010

Note 7. Long-Term Debt

The following is a summary of changes in long-term obligations for the year ended December 31, 2010:

	Balance 12/31/2009	Additions	Retirements	Balance 12/31/2010	Current Portion
Governmental Activities:					
Town hall lease	\$ 1,834,638	\$ 1,657,241	\$(1,834,638)	\$ 1,657,241	\$ 213,706
Special assessment bond	1,085,000	-	(80,000)	\$1,005,000	85,000
Compensated absences	55,002	40,994	(46,550)	49,446	49,446
Total Governmental activity					
Long-term liabilities	<u>\$ 2,974,640</u>	<u>\$ 1,698,235</u>	<u>\$(1,961,188)</u>	<u>\$2,711,688</u>	<u>\$ 348,152</u>
Business-Type Activities:					
Drinking Water Revolving Fund Loan	\$ 158,154	\$ -	\$ (20,508)	\$ 137,646	\$ 21,446
Energy/Mineral Impact Assistance Loan	175,627	-	(9,915)	165,712	10,411
Water Pollution Control Fund Loan	4,770,000	-	(190,000)	4,580,000	195,000
Plus deferred amounts:					
For issuance premiums	191,877	-	(10,868)	181,010	10,868
Total loans payable	5,295,658	-	(231,291)	5,064,368	237,725
Compensated absences	10,984	8,704	(8,569)	11,119	11,119
Total Business-type activity					
Long-term liabilities	<u>\$ 5,306,643</u>	<u>\$ 8,704</u>	<u>\$(239,860)</u>	<u>\$5,075,487</u>	<u>\$ 248,844</u>

Long-term liabilities for the primary government at December 31, 2010 are comprised of the following:

Governmental Activities:

Special assessment debt:

Special Assessment Bonds for the Town of Bayfield Special Improvement District No. 2000-1 (Bayfield Center Subdivision), due in annual principal and interest installments ranging from \$144,375 to \$148,325, bearing interest at 5.5%, maturing April 1, 2020. Repayment payable solely from the assessments levied on the SID.

\$ 1,005,000

TOWN OF BAYFIELD, COLORADO
Notes to the Financial Statements
December 31, 2010

Note 7. Long-Term Debt, Continued

Business-Type Activities:

Loans payable:

Loan payable to Colorado Water Resources and Power Development Authority Drinking Water Revolving Fund, secured by net system revenue, bearing interest at 4.5%, due in quarterly principal and interest installments of \$6,819, maturing September 1, 2016.	\$ 137,646
Energy and Mineral Impact Assistance loan payable to the Colorado Department of Local Affairs, bearing interest at 5%, due in annual principal and interest payments of \$18,697, maturing September 1, 2022.	165,712
Loan payable to Colorado Water Resources and Power Development Authority, secured by system property and net revenue, bearing interest from 2 to 3%, due in semi-annual principal, interest and fee installments ranging from \$23,367 to \$183,806, maturing August 1, 2028. The loan proceeds and obligations under the loan agreement were transferred to the Town on January 1, 2008 under the dissolution agreement of the Bayfield Sanitation District.	4,580,000
	\$ 4,883,358
Total Loans and Notes Payable	\$ 5,888,358

Debt service requirements to maturity, including Water Resources draw downs available, are as follows:

Years ending June 30:	Business-Type Activities		Governmental Activities	
	Principal	Interest	Principal	Interest
2011	\$ 226,857	\$ 185,976	85,000	60,500
2012	233,359	178,571	90,000	55,825
2013	239,932	170,943	95,000	50,875
2014	246,580	163,090	100,000	45,650
2015	258,305	155,008	105,000	40,150
2016-2020	1,288,561	653,837	530,000	106,975
2021-2025	1,419,765	443,876	-	-
2026-2028	970,000	119,152	-	-
	\$ 4,883,358	\$ 2,070,454	\$ 1,005,000	\$ 359,975

TOWN OF BAYFIELD, COLORADO
Notes to the Financial Statements
December 31, 2010

Note 8. Capital Leases Payable

The Town has entered into a lease agreement, which is considered a capital lease in accordance with Financial Accounting Standard Board statement number 13. The lease is shown in the governmental activities of the government-wide statements.

The following is an annual schedule of future minimum lease payments with an interest rate of 3.5 percent under the capital lease, together with the present value of the net minimum lease payments:

<u>December 31,</u>	<u>Governmental Activities</u>
2011	\$ 267,782
2012	267,782
2013	267,782
2014	267,782
2015	267,782
2016-2017	<u>535,564</u>
Total remaining lease payments	\$ 1,874,473
Less: Amount representing interest	<u>(217,232)</u>
Present value of net remaining minimum lease payments	<u>\$ 1,657,241</u>

A summary of assets acquired through capital leases follows:

	<u>Governmental Activities</u>
Buildings & improvements	\$ 3,796,030
Accumulated depreciation	<u>(213,527)</u>
Net total	<u>\$ 3,582,503</u>

TOWN OF BAYFIELD, COLORADO
Notes to the Financial Statements
December 31, 2010

Note 9. Interfund Receivables, Payables and Transfers

As of December 31, 2010, interfund receivables and payables that resulted from various interfund transactions were as follows:

	Due from Other Funds	Due to Other Funds
Parks and Recreation	\$ -	\$ 77,000
Capital Improvement	168,000	-
Water	-	91,000
Total	\$ 168,000	\$ 168,000

With the exception of the interfund loan between the capital improvement fund and water fund described below, interfund balances resulted from the time lag between the dates that (1) Interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

In previous years the Capital improvement fund loaned money to the Water fund. The loan is interest free and the Town makes payments each year to reduce the interfund balance.

Interfund transfers for the year ended December 31, 2010 were as follows:

	Transfers out:					Total Transfers in
	General	Park and Recreation	Capital Improvement	Water	Sewer	
Transfer in:						
General Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Parks and Recreation	162,000	-	107,000	-	-	269,000
Capital Improvement	-	-	-	13,418	19,518	32,936
Water	-	-	-	-	-	-
Sewer	-	-	-	-	-	-
Total transfers out	\$ 162,000	\$ -	\$ 107,000	\$ 13,418	\$ 19,518	\$ 301,936

Note 10. Pension Plans

Public Employees' Retirement Association

All of the Town's full-time and part-time employees, except for policemen, are eligible to participate in the Public Employees' Retirement Association of Colorado (PERA); a multiple-employer public retirement system. The payroll for employees covered by the PERA for the year ended December 31, 2010 was \$669,754.

TOWN OF BAYFIELD, COLORADO
Notes to the Financial Statements
December 31, 2010

Note 10. Pension Plans, Continued

Employees are eligible for retirement benefits upon reaching (a) age 65 with five or more years of credited service, (b) age 60 with 20 or more years of credited service or (c) age 55 with 30 or more years of service. Such benefits are equivalent to 2.4 percent of their Final Average Salary (FAS) during their highest paid three years of service prior to retirement for each year of service up to 20 years, and 1 percent for each year over 20 years. The maximum benefit available is 70 percent of their FAS. Participants may elect to receive their benefits in the form of single life or joint life payments. The Association also provides death and disability benefits. Benefits are established by State statute.

The Town and participant contributions are defined by State Statute. Participants are required to contribute 8% of their annual salary to the PERA. Participants' contributions are fully refundable, without interest, upon request at termination of employment from the Town. If participants have at least five years of credited service, they are eligible to receive a future monthly retirement benefit. Any refund of contributions paid waives all future rights to any benefits.

PERA's funding policy also requires contributions by the Town of 11.9% of the participants' salaries. These contributions are credited to the participant's division for the purpose of creating actuarial reserves so each employee's benefits will be fully provided for upon retirement. The contribution for the year ended December 31, 2010 was \$133,281 which consisted of \$79,701 from the Town and \$53,580 from employees. PERA issues publicly available report which includes financial statements and required supplementary information. This report can be obtained online at www.copera.org or by writing to Colorado PERA, 1301 Pennsylvania Street, Denver, Colorado 80203 or by calling PERA at 303-832-9550 or 1-800-759-PERA.

The Town has no post employment healthcare benefits provided to retirees, their beneficiaries or covered dependents.

Fire and Police Pension Association of Colorado

The Town's full-time policemen are eligible to participate in the Fire and Police Pension Association Pension Fund, (the fund) a multiple employer public employee retirement system. The payroll for employees covered by the fund for the year ended December 31, 2010 was \$269,906.

Employees are eligible for retirement benefits upon reaching (a) age 55 with 25 or more years of credited service, or (b) age 50 with 30 or more years of credited service. Such benefits are equivalent to 2% of their Final Average Salary (FAS) during their highest paid three years of service prior to retirement for each year of service up to 25 years. Benefits are established by State statute.

The Town and participant contributions are defined by State statute. Participants are required to contribute 8% of their annual salary to the fund. Participants' contributions are fully refundable, with 5% interest, upon request at termination of employment from the Town. If participants have at least 10 years of credited service, they are eligible to receive a future monthly retirement benefit. Any refund of contributions paid waives all future right to any benefits.

TOWN OF BAYFIELD, COLORADO
Notes to the Financial Statements
December 31, 2010

Note 10. Pension Plans, Continued

The funding policy also requires contributions by the Town of 8% of the participants' salaries. These contributions are credited to the participant's division for the purpose of creating actuarial reserves so each employee's benefits will be fully provided for upon retirement. The contribution for the year ended December 31, 2010 was \$43,185 which consisted of 21,593 from the Town and \$21,592 from employees.

The Fire and Police Pension Association of Colorado issues a report available to the public that includes financial statements and required supplementary information. This report may be obtained by writing to Fire and Police Pension Association, Two DTC, 5290 DTC Parkway, #100, Englewood, Colorado 80111.

Note 11. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. Claims have not exceeded coverage in any of the last three fiscal years.

The Town is a member of the Colorado Intergovernmental Risk Sharing Agency (CIRSA), a separate and independent governmental and legal entity formed by an intergovernmental agreement by member municipalities pursuant to the provision of 24-10-1155, Colorado Revised Statutes (1982 Replacement Volume) and the Colorado Constitution, Article XIV, Section 18(2).

The purposes of CIRSA are to provide members defined liability and property coverage's and to assist members to prevent and reduce losses and injuries to municipal property and to persons or property which might result in claims being made against members of CIRSA, their employees or officers.

The Town is insured by CIRSA/WC (Workers Compensation), a separate insurance pool, for potential worker related accidents.

TOWN OF BAYFIELD, COLORADO
Notes to the Financial Statements
December 31, 2010

Note 11. Risk Management, Continued

It is the intent of the members of CIRSA to create an entity in perpetuity which will administer and use funds contributed by the members to defend and indemnify, in accordance with the bylaws, any member of CIRSA against liability or loss, to the limit of the financial resources of CIRSA. It is also the intent of the members to have CIRSA provide continuing stability and availability of needed coverage's at reasonable costs. All income and assets of CIRSA shall at all times be dedicated to the exclusive benefit of its members.

All Colorado municipalities who are members of the Colorado Municipal League and own property, are eligible to participate. The general objectives of the Agency are to provide member municipalities defined liability and property coverage through joint self-insurance and to assist members in loss prevention measures. Any member may withdraw from the Agency by giving written notice to the Board of Directors of the prospective effective date of its withdrawal.

The Town recognizes an expense for coverage for the amount paid to CIRSA annually for these coverage's. Contingent liability claims for the coverage have not been recognized to date after reviewing claim history and the remoteness of potential loss in excess of actual contributions by the Town.

CIRSA is a separate legal entity and the Town does not approve budgets nor does it have the ability to significantly affect the operations of CIRSA. The Board of Directors of the Agency is composed of seven directors elected by the members at the annual meeting to be scheduled in December each year.

Note 12. Garbage Disposal Contract

The Town has a 5 year contract, which was renewed in 2007 for garbage disposal with a third party contractor. Under terms of the agreement the Town remits 95% of billed refuse collections fees to the contracting party, with the General Fund retaining 5% of the fees as service revenue. The activity under this contract is reflected in the Garbage Fund.

TOWN OF BAYFIELD, COLORADO
Notes to the Financial Statements
December 31, 2010

Note 13. Prior Period Adjustments

Prior period adjustments are the net effect of changes resulting from correction of an error. Because such amounts are the product of errors from a prior period, they are not properly included as part of the results of operations of the current period, even though they are reported in the current period. Instead, such adjustments are properly reported as a direct adjustment to beginning fund balance or beginning net assets to restate that amount to what it would have been had the error not occurred. During the year ended December 31, 2010, several prior period adjustments were necessary as described below.

- Several receivable accounts were not adjusted to their actual balances as of December 31, 2009. An adjustment was made to correct the balances, the net effect of which is to increase beginning fund balances.
- Inventory balances were not recorded in prior years for both the proprietary and governmental funds. An adjustment was made to record beginning inventory. The net effect was to increase inventory and fund balance/net assets.
- Compensated absences payable was improperly recorded in the General Fund and Parks and Recreation Fund as of December 31, 2009. An adjustment was made to remove the balances, the net effect of which is to increase beginning fund balances.
- Compensated absences payable were improperly calculated in the proprietary funds as of December 31, 2009. An adjustment was made to correct the balances, the net effect of which was to decrease payables and increase beginning net assets.
- Deferred revenue was improperly recorded in the Sewer Fund as of December 31, 2009. An adjustment was made to remove the balance, the net effect of which is to increase beginning net assets.
- Salaries and wages payable were not recorded as of December 31, 2009. An adjustment was made to record the beginning liability, the net effect of which was to decrease fund balance.
- Beginning capital assets did not properly reflect the total assets of the Town for governmental funds. An adjustment was made to increase capital asset balances by \$1,601,576. However, this increase was offset by accumulated depreciation for the same amount. The net effect of these adjustments was \$0.
- Special assessment revenue was not properly recognized in the government-wide statement of net assets in prior years. An adjustment was made to increase receivable balances and net assets for governmental activities.

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TOWN OF BAYFIELD, COLORADO

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULES

FOR THE FOLLOWING MAJOR FUNDS:

The **General Fund** is used to account for resources traditionally associated with government which are not required legally or by sound financial management to be accounted for in another fund.

The **Parks and Recreation Fund** accounts for the Senior Center activities, parks and recreation activities, and the State of Colorado lottery funds to be used for parks and recreation services and capital investment.

TOWN OF BAYFIELD, COLORADO
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended December 31, 2010

Revenues	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Taxes:				
Property tax	\$ 250,855	\$ 245,218	\$ 249,482	\$ 4,264
Sales tax	839,493	911,016	896,662	(14,354)
Severance tax	40,000	45,253	45,253	-
Federal mineral leasing	20,000	32,008	32,008	-
Franchise tax	17,500	12,641	11,396	(1,245)
Highway users tax	51,000	69,000	71,383	2,383
Other taxes	59,000	60,153	59,874	(279)
Total taxes	<u>1,277,848</u>	<u>1,375,289</u>	<u>1,366,058</u>	<u>(9,231)</u>
Licenses, permits and fees:				
Licenses, permits and fees	29,125	22,120	22,249	129
Building permits	25,000	30,281	30,706	425
Charges for services	23,600	25,797	27,202	1,405
Total licenses, permits and fees	<u>77,725</u>	<u>78,198</u>	<u>80,157</u>	<u>1,959</u>
Intergovernmental:				
Grant revenues	-	551,250	353,505	(197,745)
Total intergovernmental	<u>-</u>	<u>551,250</u>	<u>353,505</u>	<u>(197,745)</u>
Fines and forfeitures:				
Fines and forfeitures	16,600	12,800	16,656	3,856
Total fines and forfeitures	<u>16,600</u>	<u>12,800</u>	<u>16,656</u>	<u>3,856</u>
Interest:				
Interest revenue	18,012	5,627	5,874	247
Total interest	<u>18,012</u>	<u>5,627</u>	<u>5,874</u>	<u>247</u>
Other revenues:				
Miscellaneous	2,000	336	2,233	1,897
Total other revenues	<u>2,000</u>	<u>336</u>	<u>2,233</u>	<u>1,897</u>
Total revenues	<u>1,392,185</u>	<u>2,023,500</u>	<u>1,824,483</u>	<u>(199,017)</u>

(continued)

TOWN OF BAYFIELD, COLORADO
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual, (Continued)
For the Year Ended December 31, 2010

Expenditures	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
General Government:				
Town board	921	1,949	1,824	125
Town manager's office	66,848	65,856	69,298	(3,442)
Intern	33,039	27,469	28,822	(1,353)
Planning and development	37,000	50,292	59,986	(9,694)
Town clerk and finance	165,921	143,594	150,314	(6,720)
Elections	1,500	928	928	-
Municipal	7,400	7,500	7,427	73
Administrative	73,747	72,649	72,249	400
Town hall	46,635	35,817	31,113	4,704
Information technology	10,500	28,500	21,070	7,430
Community development	52,598	52,598	49,898	2,700
Total General Government	496,109	487,152	492,929	(5,777)
Public Safety:				
Wages and benefits	374,463	373,313	363,297	10,016
Operations	115,850	101,327	97,182	4,145
Administrative	20,160	19,700	14,327	5,373
Miscellaneous	5,000	1,000	790	210
Total Public Safety	515,473	495,340	475,596	19,744
Public Works:				
Wages and benefits	133,614	129,698	128,950	748
Streets	60,000	55,747	55,390	357
Operations	27,979	27,911	27,518	393
Administrative	15,367	14,542	12,555	1,987
Total Public Works	236,960	227,898	224,413	3,485
Non-departmental:				
	21,700	48,111	17,414	30,697
Total Non-departmental	21,700	48,111	17,414	30,697
Payments to sub recipients				
	-	535,000	336,005	198,995
Total payments to sub recipients	-	535,000	336,005	198,995
Capital outlay:				
Capital outlay	12,000	17,000	12,778	4,222
Total capital outlay	12,000	17,000	12,778	4,222
Total expenditures	1,282,242	1,810,501	1,559,135	251,366

(continued)

TOWN OF BAYFIELD, COLORADO
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual, (Continued)
For the Year Ended December 31, 2010

Excess of revenues over (under) expenditures	<u>109,943</u>	<u>212,999</u>	<u>265,348</u>	<u>52,349</u>
Other financing sources (uses):				
Transfer out	<u>(131,970)</u>	<u>(172,000)</u>	<u>(162,000)</u>	<u>10,000</u>
Total other financing sources (uses)	<u>(131,970)</u>	<u>(172,000)</u>	<u>(162,000)</u>	<u>10,000</u>
Net change in fund balance	<u>(22,027)</u>	<u>40,999</u>	<u>103,348</u>	<u>62,349</u>
Fund balance, beginning of year	891,781	891,781	891,781	-
Prior period adjustment	<u>-</u>	<u>-</u>	<u>(915)</u>	<u>(915)</u>
Fund balance, end of year	<u>\$ 869,754</u>	<u>\$ 932,780</u>	<u>\$ 994,214</u>	<u>\$ 61,434</u>

TOWN OF BAYFIELD, COLORADO
Parks and Recreation Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended December 31, 2010

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental revenue	\$ 136,000	\$ 102,500	\$ 102,392	\$ (108)
Charges for services	53,800	58,941	61,013	2,072
Interest income	-	110	121	11
Other revenues	8,200	9,232	9,712	480
Total revenues	<u>198,000</u>	<u>170,783</u>	<u>173,238</u>	<u>2,455</u>
Expenditures				
Wages and benefits	188,172	189,858	198,593	(8,735)
Adult sports and athletics	8,750	9,764	9,864	(100)
Youth sports and athletics	6,300	6,843	6,916	(73)
Park expenses	28,000	38,259	37,056	1,203
Special events	16,700	16,313	10,208	6,105
Senior citizens center	26,200	36,300	36,729	(429)
Food bank	-	1,700	1,660	40
Administrative	22,962	21,681	16,842	4,839
Miscellaneous	3,500	1,750	1,653	97
Capital outlay	15,000	40,857	36,749	4,108
Total expenditures	<u>315,584</u>	<u>363,325</u>	<u>356,270</u>	<u>7,055</u>
Excess of revenue and other sources over (under) expenditures and other uses	<u>(117,584)</u>	<u>(192,542)</u>	<u>(183,032)</u>	<u>9,510</u>
Other financing sources (uses):				
Transfers in	<u>162,000</u>	<u>279,000</u>	<u>269,000</u>	<u>(10,000)</u>
Total other financing sources (uses):	<u>162,000</u>	<u>279,000</u>	<u>269,000</u>	<u>(10,000)</u>
Net change in fund balance	44,416	86,458	85,968	(490)
Fund balance, beginning of year	(28,606)	(28,606)	(28,606)	-
Prior period adjustment	<u>-</u>	<u>-</u>	<u>(1,410)</u>	<u>(1,410)</u>
Fund balance, end of year	<u>\$ 15,810</u>	<u>\$ 57,852</u>	<u>\$ 55,952</u>	<u>\$ (1,900)</u>

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TOWN OF BAYFIELD, COLORADO
SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULES
FOR THE FOLLOWING FUNDS:

Major Capital Project Fund

The **Capital Improvement Fund** accounts for acquisition or construction of major capital facilities (other than those belonging to enterprise funds).

Nonmajor Debt Service Fund

The **Debt Service Fund** is used to account for resources to meet current and future debt service requirements on the Special Improvement District.

Major and Nonmajor Enterprise Funds

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The budgets for the enterprise funds have been prepared and presented on a modified accrual basis which is an accounting basis other than GAAP for enterprise funds.

The **Water Fund** is used to account for the Town's water wells, treatment facilities and distribution system.

The **Sewer Fund** is used to account for the Town's sewer collection and treatment services.

The **Garbage Fund** is used to account for the Town's garbage collection services.

TOWN OF BAYFIELD, COLORADO
Capital Improvement Capital Project Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended December 31, 2010

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Sales taxes	\$ 295,245	\$ 292,143	\$ 291,581	\$ (562)
Intergovernmental revenue	37,000	289,151	299,673	10,522
Interest income	7,000	13,900	14,846	946
Total revenue	<u>339,245</u>	<u>595,194</u>	<u>606,100</u>	<u>10,906</u>
Expenditures				
Debt service				
Principal	283,000	283,000	1,834,939	(1,551,939)
Interest	-	-	101,020	(101,020)
Capital outlay	<u>167,000</u>	<u>610,143</u>	<u>614,759</u>	<u>(4,616)</u>
Total expenditures	<u>450,000</u>	<u>893,143</u>	<u>2,550,718</u>	<u>(1,657,575)</u>
Excess of revenue and other sources over (under) expenditures and other uses	<u>(110,755)</u>	<u>(297,949)</u>	<u>(1,944,618)</u>	<u>(1,646,669)</u>
Other financing sources (uses):				
Transfers in	141,617	141,617	32,936	(108,681)
Transfers out	(96,890)	(173,890)	(107,000)	66,890
Capital lease	-	-	1,657,241	1,657,241
Sale of assets	-	256,200	254,932	(1,268)
Total other financing sources (uses):	<u>44,727</u>	<u>223,927</u>	<u>1,838,109</u>	<u>1,614,182</u>
Net change in fund balance	(66,028)	(74,022)	(106,509)	(32,487)
Fund balance, beginning of year	1,238,276	1,238,276	1,238,276	-
Prior period adjustment	-	-	(18,609)	(18,609)
Fund balance, end of year	<u>\$1,172,248</u>	<u>\$1,164,254</u>	<u>\$ 1,113,158</u>	<u>\$ (51,096)</u>

TOWN OF BAYFIELD, COLORADO
Debt Service Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended December 31, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Special assessments	\$ 176,768	\$ 151,061	\$ 152,587	\$ 1,526
Interest	1,000	500	555	55
Total revenues	<u>177,768</u>	<u>151,561</u>	<u>153,142</u>	<u>1,581</u>
Expenditures				
General government	1,575	1,677	1,697	(20)
Debt service:				
Principal	100,000	80,000	80,000	-
Interest	70,825	64,900	64,900	-
Total expenditures	<u>172,400</u>	<u>146,577</u>	<u>146,597</u>	<u>(20)</u>
Excess of revenues over (under) expenditures	5,368	4,984	6,545	1,601
Fund balance, beginning of year	<u>38,662</u>	<u>38,662</u>	<u>38,662</u>	<u>-</u>
Fund balance, end of year	<u>\$ 44,030</u>	<u>\$ 43,646</u>	<u>\$ 45,207</u>	<u>\$ 1,561</u>

TOWN OF BAYFIELD, COLORADO
Water Fund
Schedule of Revenues, Expenses and Changes in Available Resources
Budget and Actual
For the Year Ended December 31, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Operating revenues				
Charges for services	\$ 460,000	\$ 481,200	\$ 507,969	\$ 26,769
Total operating revenues	460,000	481,200	507,969	26,769
Operating expenses				
Salaries and wages	148,028	158,028	136,018	22,010
Water storage	35,000	21,368	21,131	237
Pumping costs	36,000	40,341	40,059	282
Water treatment	52,000	52,500	46,607	5,893
Transmission and distribution	155,875	55,103	58,599	(3,496)
Administrative	34,860	24,504	60,732	(36,228)
Total operating expenses	461,763	351,844	363,146	(11,302)
Operating income (loss)	(1,763)	129,356	144,823	15,467
Non-operating revenues (expenses)				
Interest income	1,000	4,100	4,436	336
Connection and tap fees	86,000	82,186	82,186	-
Total non-operating revenues (expenses)	87,000	86,286	86,622	336
Income before contributions, transfers and capital and related financing activities	85,237	215,642	231,445	15,803
Contributions, transfers and capital and related financing activities				
Capital outlay	(354,500)	(238,784)	(117,926)	120,858
Debt service	(107,014)	(107,014)	(45,972)	61,042
Capital contributions and grants	-	68,000	68,000	-
Transfers out	(13,418)	(13,418)	(13,418)	-
Total contributions and transfers	(474,932)	(291,216)	(109,316)	181,900
Change in available resources	(389,695)	(75,574)	122,129	197,703
Available resources, beginning of year	428,927	428,927	428,927	-
Prior period adjustment	-	-	71,501	71,501
Available resources, end of year	\$ 39,232	\$ 353,353	\$ 622,557	\$ 269,204

TOWN OF BAYFIELD, COLORADO
Sewer Fund
Schedule of Revenues, Expenses and Changes in Available Resources
Budget and Actual
For the Year Ended December 31, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Operating revenues				
Charges for services	\$ 665,000	\$ 665,000	\$ 680,690	\$ 15,690
Other revenues	-	-	175,703	175,703
Total operating revenues	665,000	665,000	856,393	191,393
Operating expenses				
Salaries and wages	203,460	209,105	190,506	18,599
Collection and transmission	22,000	21,835	13,870	7,965
Sewer treatment	124,000	117,454	90,057	27,397
General operations	53,500	6,785	5,201	1,584
Administrative	35,500	32,580	27,251	5,329
Miscellaneous	60,000	59,261	27,870	31,391
Total operating expenses	498,460	447,020	354,755	92,265
Operating income	166,540	217,980	501,638	283,658
Non-operating revenues (expenses)				
Interest income	-	300	333	33
Connection and tap fees	100,000	99,550	99,550	-
Decommissioning costs	-	(150)	(83,426)	(83,276)
Total non-operating revenues (expenses)	100,000	99,700	16,457	(83,243)
Income before contributions, transfers and capital and related financing activities	266,540	317,680	518,095	200,415
Contributions, transfers and capital and related financing activities				
Capital outlay	-	(515,915)	(424,536)	91,379
Debt service	(364,219)	(202,926)	(378,478)	(175,552)
Capital contributions and grants	-	579,396	396,656	(182,740)
Transfers out	(19,517)	(19,517)	(19,517)	-
Total contributions and transfers	(383,736)	(158,962)	(425,875)	(266,913)
Change in available resources	(117,196)	158,718	92,220	(66,498)
Available resources, beginning of year	232,532	232,532	232,532	697,596
Prior period adjustment	-	-	237,955	237,955
Available resources, end of year	<u>\$ 115,336</u>	<u>\$ 391,250</u>	<u>\$ 562,707</u>	<u>\$ 869,053</u>

TOWN OF BAYFIELD, COLORADO
Garbage Fund
Schedule of Revenues, Expenses and Changes in Available Resources
Budget and Actual
For the Year Ended December 31, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Operating revenues				
Charges for services	\$ 109,600	\$ 113,930	\$ 115,115	\$ 1,185
Total operating revenues	109,600	113,930	115,115	1,185
Operating expenses				
Salaries and wages	5,000	5,000	9,426	(4,426)
General operations	101,745	100,145	102,838	(2,693)
Administrative	-	100	1,115	(1,015)
Total operating expenses	106,745	105,245	113,379	(8,134)
Operating income (loss)	2,855	8,685	1,736	(6,949)
Non-operating revenues (expenses)				
Interest income	1,300	200	101	(99)
Total non-operating revenues (expenses)	1,300	200	101	(99)
Income (loss) before contributions, transfers and capital and related financing activities	4,155	8,885	1,837	(7,048)
Contributions, transfers and capital and related financing activities				
Capital contributions and grants	-	-	-	-
Change in available resources	4,155	8,885	1,837	(7,048)
Available resources, beginning of year	50,621	50,621	50,621	-
Prior period adjustment	-	-	(248)	(248)
Available resources, end of year	<u>\$ 54,776</u>	<u>\$ 59,506</u>	<u>\$ 52,210</u>	<u>\$ (7,296)</u>

TOWN OF BAYFIELD, COLORADO
SUPPLEMENTARY INFORMATION
COLORADO WATER RESOURCES AND
POWER DEVELOPMENT AUTHORITY
LOAN COVENANTS AND REQUIREMENTS

The Colorado Water Resources and Power Development Authority Loan Agreement set forth certain covenants and restrictions. As of December 31, 2010, the Town appears to be in compliance with all covenants and restrictions as set forth in Exhibit F, Additional Covenants and Requirements. See note 7 for details on the loan. The following are additional disclosures required by the loan agreement.

- **Rate Covenant:** The Town is required to maintain rates and fees at levels that will generate enough revenue to cover operating expenses and annual debt service at 1.10 times. The December 31, 2010 calculation for the rate covenant is as follows:

	Total Revenues	856,393
	Total Operating Exp (-) Depreciation	<u>(438,181)</u>
		418,212
	Annual Debt Service	366,861
	Coverage Ratio	<u>1.14</u>
	Coverage Ratio Requirement	1.10
	Over/(Under)	<u><u>0.04</u></u>

- **Operations and Maintenance Reserve Fund Covenant:** The Town is required to maintain reserves equal to three months of operation and maintenance expenses of the system. The reserve fund is reported as restricted on the Statement of Net Assets – Proprietary Funds. The December 31, 2010 reserve calculation is as follows:

	Current Assets	577,402
	Current Liabilities	<u>209,695</u>
	CA-CL Calculation	367,707
	Operating Expense	727,326
	Depreciation	<u>(289,145)</u>
	Total Operating Exp Used	438,181
	25% of Operating Exp (-) Depreciation Exp	109,545
	Restricted Reserve for Debt Service	<u>109,545</u>
	Over/(Short)	<u><u>(0)</u></u>

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SUPPLEMENTARY INFORMATION
LOCAL HIGHWAY FINANCE REPORT

Section 43-2-132 of the Colorado Revised Statutes requires municipalities receiving Highway User Tax Funds to include a schedule of highway receipts and expenditures with the audit report. The said report is presented on the following two pages.

The public report burden for this information collection is estimated to average 380 hours annually.

LOCAL HIGHWAY FINANCE REPORT	City or County: Town of Bayfield, CO
	YEAR ENDING : December 2010
Prepared By: Chad Atkinson, CPA Phone: 1-435-628-3663	

I. DISPOSITION OF HIGHWAY-USER REVENUES AVAILABLE FOR LOCAL GOVERNMENT EXPENDITURE

ITEM	A. Local Motor-Fuel Taxes	B. Local Motor-Vehicle Taxes	C. Receipts from State Highway-User Taxes	D. Receipts from Federal Highway Administration
1. Total receipts available				
2. Minus amount used for collection expenses				
3. Minus amount used for nonhighway purposes				
4. Minus amount used for mass transit				
5. Remainder used for highway purposes				

II. RECEIPTS FOR ROAD AND STREET PURPOSES

III. DISBURSEMENTS FOR ROAD AND STREET PURPOSES

ITEM	AMOUNT	ITEM	AMOUNT
A. Receipts from local sources:		A. Local highway disbursements:	
1. Local highway-user taxes		1. Capital outlay (from page 2)	358,267
a. Motor Fuel (from Item I.A.5.)		2. Maintenance:	
b. Motor Vehicle (from Item I.B.5.)		3. Road and street services:	
c. Total (a.+b.)		a. Traffic control operations	
2. General fund appropriations	1,259	b. Snow and ice removal	16,004
3. Other local imposts (from page 2)	178,519	c. Other	70,248
4. Miscellaneous local receipts (from page 2)	15,348	d. Total (a. through c.)	86,252
5. Transfers from toll facilities		4. General administration & miscellaneous	-
6. Proceeds of sale of bonds and notes:		5. Highway law enforcement and safety	
a. Bonds - Original Issues		6. Total (1 through 5)	444,519
b. Bonds - Refunding Issues		B. Debt service on local obligations:	
c. Notes		1. Bonds:	
d. Total (a. + b. + c.)	0	a. Interest	
7. Total (1 through 6)	195,126	b. Redemption	
B. Private Contributions		c. Total (a. + b.)	0
C. Receipts from State government (from page 2)		2. Notes:	
	249,393	a. Interest	
D. Receipts from Federal Government (from page 2)		b. Redemption	
	0	c. Total (a. + b.)	0
E. Total receipts (A.7 + B + C + D)		3. Total (1.c + 2.c)	0
	444,519	C. Payments to State for highways	
		D. Payments to toll facilities	
		E. Total disbursements (A.6 + B.3 + C + D)	
			444,519

IV. LOCAL HIGHWAY DEBT STATUS

(Show all entries at par)

	Opening Debt	Amount Issued	Redemptions	Closing Debt
A. Bonds (Total)				0
1. Bonds (Refunding Portion)				
B. Notes (Total)				0

V. LOCAL ROAD AND STREET FUND BALANCE

	A. Beginning Balance	B. Total Receipts	C. Total Disbursements	D. Ending Balance	E. Reconciliation
	0	444,519	444,519		(0)

Notes and Comments:

LOCAL HIGHWAY FINANCE REPORT

STATE:
Colorado
YEAR ENDING (mm/yy):
December 2010

II. RECEIPTS FOR ROAD AND STREET PURPOSES - DETAIL

ITEM	AMOUNT	ITEM	AMOUNT
A.3. Other local imposts:		A.4. Miscellaneous local receipts:	
a. Property Taxes and Assessments		a. Interest on investments	
b. Other local imposts:		b. Traffic Fines & Penalties	
1. Sales Taxes	178,519	c. Parking Garage Fees	
2. Infrastructure & Impact Fees		d. Parking Meter Fees	
3. Liens		e. Sale of Surplus Property	
4. Licenses		f. Charges for Services	
5. Specific Ownership &/or Other		g. Other Misc. Receipts	
6. Total (1. through 5.)	178,519	h. Other - Road and Bridge	15,348
c. Total (a. + b.)	178,519	i. Total (a. through h.)	15,348
	(Carry forward to page 1)		(Carry forward to page 1)

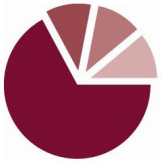
ITEM	AMOUNT	ITEM	AMOUNT
C. Receipts from State Government		D. Receipts from Federal Government	
1. Highway-user taxes	71,383	1. FHWA (from Item I.D.5.)	
2. State general funds		2. Other Federal agencies:	
3. Other State funds:		a. Forest Service	
a. State bond proceeds		b. FEMA	
b. Project Match		c. HUD	
c. Motor Vehicle Registrations	9,777	d. Federal Transit Admin	
d. Other - State Grants - HWY 160B	168,234	e. U.S. Corps of Engineers	
e. Other - Road and bridge		f. Other Federal	
f. Total (a. through e.)	178,010	g. Total (a. through f.)	0
4. Total (1. + 2. + 3.f)	249,393	3. Total (1. + 2.g)	
			(Carry forward to page 1)

III. DISBURSEMENTS FOR ROAD AND STREET PURPOSES - DETAIL

	ON NATIONAL HIGHWAY SYSTEM (a)	OFF NATIONAL HIGHWAY SYSTEM (b)	TOTAL (c)
A.1. Capital outlay:			
a. Right-Of-Way Costs			0
b. Engineering Costs			0
c. Construction:			
(1). New Facilities			0
(2). Capacity Improvements			0
(3). System Preservation		333,866	333,866
(4). System Enhancement & Operation		24,401	24,401
(5). Total Construction (1) + (2) + (3) + (4)	0	358,267	358,267
d. Total Capital Outlay (Lines 1.a. + 1.b. + 1.c.5)	0	358,267	358,267
			(Carry forward to page 1)

Notes and Comments:

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**Independent Auditors' Report on Internal Control
 over Financial Reporting and on Compliance and Other
 Matters Based on an Audit of Financial Statements
 Performed in Accordance with *Government Auditing Standards***

The Honorable Mayor and Council
 Town of Bayfield, Colorado

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the Town of Bayfield, Colorado, as of and for the year ended December 31, 2010, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated May 23, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Town of Bayfield, Colorado's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the findings and recommendations letter dated May 23, 2011, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies described in the findings and recommendations letter dated May 23, 2011 to be material weaknesses:

- 10-1 Accounting Adjustments
- 10-2 Capital Asset Accounting

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies described in the findings and recommendations letter dated May 23, 2011 to be significant deficiencies:

- 10-3 Controls over Utility Billings and Cash Receipting
- 10-4 Financial Statement Preparation

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we have reported to the management of the Town in a separate letter dated May 23, 2011.

This report is intended solely for the information of the mayor, audit committee, management, Town Council, and various federal and state awarding agencies and pass-through entities and is not intended to be an should not be used by anyone other than these specified part parties. However, this report is a matter of public record and its distribution is not limited.



HINTON, BURDICK, HALL & SPILKER, PLLC
May 23, 2011